

## Message Text

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TO USDEL MTN GENEVA PRIORITY

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E.O. 11652: GDS

TAGS: ETRD, MTN

SUBJECT: POSITION PAPER FOR TARIFF GROUP

1. THE FOLLOWING PORTION OF THE POSITION PAPER FOR THE MARCH 23 MEETING RECEIVED TENTATIVE APPROVAL BY THE TRADE POLICY STAFF COMMITTEE. THE BRACKETED ITEMS REMAIN UNDER DISPUTE, AND THE RECOMMENDATIONS ON THE FORMULA ITSELF AND THE DISCUSSIONS OF THE FORMULA REMAIN STILL NEED TO BE FILLED IN.

### 2. PROBLEM

THE MTN TARIFF GROUP (TG) WILL BE MEETING MARCH 23-26. THE AGENDA INCLUDES THE MATTER OF A TARIFF-CUTTING TECHNIQUE, SPECIAL PROCEDURES FOR NEGOTIATIONS BETWEEN THE DEVELOPED COUNTRIES AND LDCS, AND SEVERAL OTHER UNRESOLVED TECHNICAL ISSUES (E.G., BASE RATES/BASE DATES) TO WHICH THE GROUP HAS AGREED TO REVERT.

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3. THE MATTER OF ALTERNATIVE TARIFF REDUCTION FORMULAS IS ASSUMED BY OUR TRADING PARTNERS TO BE THE PRIORITY AGENDA TOPIC FOR THIS MEETING. DISCUSSION OF SPECIFIC FORMULAS HAS NOT TAKEN PLACE IN THE TG SINCE ITS MEETING OF MAY

1975, IN RECOGNITION OF THE UNITED STATES INABILITY TO TAKE

A DEFINITIVE POSITION ON THIS QUESTION PENDING FURTHER CONSULTATIONS WITH ITS PRIVATE SECTORY ADVISORY GROUPS. SINCE THE U.S. DEL HAS INFORMED OTHER PARTICIPANTS THAT WE WILL, AT THIS MEETING, PROPOSE A FORMULA FOR CONSIDERATION AS THE MULTILATERALLY APPLIED TARIFF-CUTTING HYPOTHESIS, OTHER DELEGATIONS ANTICIPATE SUBSTANTIVE DISCUSSION OF THIS TOPIC.

4. GUIDANCE IS NEEDED FOR THE U.S. DELEGATION.

5. RECOMMENDATIONS

THE U.S. REPRESENTATIVE MAY STATE THAT:

(A) TARIFF REDUCTION FORMULA

(1) TARIFF NEGOTIATING HYPOTHESIS. THE USG, HAVING RECEIVED DETAILED ADVICE THROUGH ITS DOMESTIC CONSULTATIVE PROCEDURES SEEKS ACCEPTANCE OF A TARIFF-CUTTING HYPOTHESIS WHICH WOULD BE APPLICABLE TO ALL MFN DUTIES, AND WHICH WOULD RESULT IN: (A) A SUBSTANTIAL OVERALL REDUCTION OF DUTIES; AND BEGIN BRACKETS (B) SIGNIFICANT HARMONIZATION OF DUTIES WITHIN THE RANGE OF RATES INTO WHICH THE LARGE MAJORITY OF DEVELOPED COUNTRY RATES NOW FALL. END BRACKETS

6. THE USDEL SHOULD POINT OUT THAT THE US OBJECTIVE IS TO ACHIEVE AGREEMENT ON A FORMULA MORE AMBITIOUS THAN THE KENNEDY ROUND HYPOTHESIS OF A 50 0/0 REDUCTION IN THE LEVEL OF DC TARIFFS. ADDITIONALLY, IT REFLECTS AN EMPHASIS UPON ACHIEVING MORE EQUITABLE ACCESS TO EACH OTHERS MARKETS FOR PRODUCTS ACCOUNTING FOR THE BULK OF OUR CURRENT TRADE. IN LINE WITH THIS LATTER POINT, WE WILL BE SEEKING, AS PART OF ANY AGREEMENT ON A TARIFF CUTTING HYPOTHESIS, AN UNDERSTANDING THAT NON-TARIFF LIMITED OFFICIAL USE

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MEASURES ON PRODUCTS COVERED BY THE FORMULA SHOULD ALSO BE LIBERALIZED.

(2) INITIAL U.S. TARIFF FORMULA PROPOSAL. CONSISTENT WITH THESE OBJECTIVES, THE USG FAVORS ADOPTION OF THE FOLLOWING FORMULA:

(B) RULES ON EXCEPTIONS

(1) WE ARE COMMITTED TO A HYPOTHESIS WHICH CALLS FOR THE REDUCTION OF DUTIES ACROSS-THE-BOARD.

(2) THE UG WILL NOT BE PREPARED TO DISCUSS RULES ON EXCEPTIONS UNTIL AGREEMENT ON A TARIFF FORMULA IS REACHED AND WE HAVE CONSULTED ON THIS QUESTION WITH THE PRIVATE SECTOR ADVISORY COMMITTEES.

(3) THERE SHOULD BE, HOWEVER, A BARE MINIMUM OF EXCEPTIONS, WITH SPECIAL EFFORTS MADE BY ALL PARTICIPANTS TO LIMIT EXCEPTING ITEMS OF EXPORT INTEREST TO LDCS.

(C) SPECIAL AND DIFFERENTIAL TREATMENT FOR LDCS

(1) WHILE WE BELIEVE THAT THE FORMULA WE HAVE PROPOSED WOULD TAKE US FAR DOWN THE ROAD TOWARDS PROVIDING LDCS WITH SECURE AND FAVORABLE ACCESS FOR THEIR PRODUCTS, ESPECIALLY WITH RESPECT TO SEMI-PROCESSED MANUFACTURERS, WE APPRECIATE THE LDC ARGUMENT THAT A TARIFF FORMULA OF GENERAL APPLICATION MAY NOT ASSURE SOLUTION OF ALL OF THEIR SPECIFIC PROBLEMS RE DC TARIFFS. ACCORDINGLY, WE WOULD AGAIN URGE ADOPTION OF THE CROSS-NOTIFICATION PROCEDURE DESCRIBED BY US AT THE OCTOBER MEETING. THIS PROCEDURE WOULD BE A USEFUL AND EFFICIENT MEANS OF EXPOSING ANY LIMITATIONS OF THE VARIOUS FORMULA PROPOSALS, THEREBY ALLOWING CONCRETE RATHER THAN ABSTRACT DISCUSSIONS OF THESE PROBLEMS.

(D) FOB-CIF

(1) SINCE THE OCTOBER MEETING, USEFUL TECHNICAL DISCUSSIONS REGARDING THIS ISSUE HAVE TAKEN PLACE BILATERALLY. LIMITED OFFICIAL USE  
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MORE COMPLETE US DATA, SHOWING DUTIABLE VALUES ON BOTH BASES, SHOULD BE AVAILABLE IN THE NEAR FUTURE, WHICH WILL FACILITATE FURTHER BILATERAL CONSULTATIONS. THE USDEL NEED NOT DWELL UPON THE NEED FOR AN FOB-CIF ADJUSTMENT UNLESS STATEMENTS AGAINST THE PRINCIPLE OF SUCH ADJUSTMENTS ARE MADE BY OTHER DELS.

(E) BASE DATES/BASE RATES

(1) THE LACK UP UNTIL RECENTLY OF A TARIFF RATE INFORMATION FILE (TRIF) FOR MANY COUNTRIES HAS MADE IT DIFFICULT TO REACH A CONCLUSION ON THE APPROPRIATE TREATMENT UNDER A TARIFF-CUTTING HYPOTHESIS OF THE VARIOUS TYPES OF UNBOUND RATES IN COUNTRIES' SCHEDULES. WE WOULD URGE ALL COUNTRIES TO EXPEDITE SUBMISSION OF THEIR FILES TO THE SECRETARIAT SO THAT THIS ISSUE CAN BE RESOLVED AS SOON AS POSSIBLE.

(F) GATT SECRETARIAT ANALYSIS OF FORMULAS

(1) THERE MAY BE A NEED AT THIS STAGE TO ESTABLISH A TECHNICAL WORKING GROUP TO CONSIDER ANALYSES THAT WOULD BE USEFUL TO THE PARTICIPANTS IN EVALUATING ALTERNATIVE TARIFF FORMULAS. USDEL MAY PROPOSE CREATION OF SUCH A GROUP IS IT APPEARS THAT THIS WOULD DEFUSE THE PROBLEM OF THE LDC STUDY BY GIVING US A LESS PUBLIC FORUM IN WHICH TO EXERT INFLUENCE OVER DEVELOPMENT OF THE "SYSTEM".

## 7. DISCUSSION

### (A) TARIFF REDUCTION FORMULA

EVEN PRIOR TO ADOPTION OF THE TOKYO DECLARATION AND SUBSEQUENT FORMATION OF A TARIFFS GROUP UNDER THE TRADE NEGOTIATIONS COMMITTEE, THE GATT CPS HAD BEGUN DISCUSSION OF DIFFERENT APPROACHES TO NEGOTIATING ACROSS-THE-BOARD REDUCTIONS IN TARIFFS. THE GATT COMMITTEE ON TRADE IN INDUSTRIAL PRODUCTS INITIATED THE EARLIEST EXAMINATION OF "TECHNIQUES AND MODALITIES" (MEANS AND RULES) FOR TARIFF NEGOTIATIONS. EMERGING FROM THESE DISCUSSIONS WERE A RELATIVELY LIMITED NUMBER OF DIFFERENT APPROACHES  
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TO TARIFF LIBERALIZATION THAT CONTINUE TO FIND EXPRESSION IN THE SPECIFIC TARIFF-CUTTING FORMULAS TABLED BY THE MAJOR TRADING COUNTRIES. THESE APPROACHES WERE: LINEAR REDUCTIONS, HARMONIZATION OF RATES, AND DUTY ELIMINATION. AN ADDITIONAL CONCEPT PRESENTED DURING THE GROUP'S DISCUSSIONS WAS THE SUGGESTION THAT A TARIFF FORMULA SIMPLY ESTABLISH A TARGET OVERALL PERCENTAGE REDUCTION, WHICH EACH NEGOTIATING COUNTRY WOULD BE FREE TO MEET BY CUTTING SOME RATES BY MORE THAN THE PERCENTAGE STATED IN THE HYPOTHESIS AND SOME RATES BY LESS OR NOT AT ALL, AS LONG AS THE OVERALL TARGET WAS MET.

8. IN COMPARISON TO THE EXPANSIVE DISCUSSION OF "TECHNIQUES" IN THE CTIP, THE WORK OF THE TARIFF GROUP (AND ITS ANTECEDENT, GROUP 3A) ON TARIFF-CUTTING FORMULAS HAS BEEN MORE TENTATIVE. A TOTAL OF TEN DISTINCT AND SPECIFIC FORMULAS HAVE BEEN TABLED DURING THE GROUP'S TWO YEAR LIFE. GENERALLY, COUNTRIES HAVE FOLLOWED THE PRACTICE OF TABLING ONE OR MORE FORMULAS "FOR ILLUSTRATIVE PURPOSES", ACCOMPANYING THEIR PROPOSALS WITH BRIEF STATEMENTS CONCERNING THE POSITIVE EFFECTS OF THE FORMULA(S), BUT THEN BEING CAREFUL TO STOP SHORT OF ENGAGING IN SUBSTANTIVE DEBATE OVER THE RELATIVE MERITS OF ALTERNATIVE PROPOSALS.

9. IN PREPARING FOR THE TWO INITIAL MEETINGS OF GROUP 3(A) (MARCH-MAY 1974), THE US DEL SOUGHT SUPPORT FROM OTHER DELEGATIONS FOR A REQUEST TO THE SECRETARIAT TO

GENERATE ILLUSTRATIVE TABULATIONS SHOWING THE EFFECTS OF VARIOUS FORMULAS ON TARIFFS. THE EC FIRMLY OPPOSES SUCH WORK ON A TARIFF-CUTTING TECHNIQUE UNTIL SUCH TIME AS THE USG RECEIVED ITS TARIFF NEGOTIATING AUTHORITY FROM THE CONGRESS. AS A RESULT, GROUP 3(A) CONCENTRATED ON TECHNICAL QUESTIONS (E.G. BASE DATES/RATES THROUGHOUT ITS MEETING IN 1974.

10. PASSAGE OF THE TRADE ACT AND INITIATION OF OUR PRIVATE SECTOR CONSULTATIVE PROCEDURES LED TO A REVERSAL OF THE U.S. AND EC ROLES WITH RESPECT TO CONSIDERATION OF ALTERNATIVE TARIFF FORMULAS. WHEREAS THE EC BECAME MORE OUTSPOKEN ON THE NEED FOR PROGRESS ON A TARIFF LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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FORMULA, THE USG STATED AT MEETINGS THROUGH 1975 THAT IT WAS INAPPROPRIATE FOR IT TO COMMIT ITSELF TO A SPECIFIC FORMULA BEFORE RECEIVING ADVICE FROM THE VARIOUS PRIVATE SECTOR COMMITTEES WHICH HAD BEEN ESTABLISHED. WE CHOSE TO TABLE 3 FORMULA PROPOSALS "WITHOUT COMMITMENT" (MAY 1975) BUT WERE NOT ANXIOUS FOR THE TG TO UNDERTAKE IN-DEPTH EXAMINATION OF OURS OR OTHERS PROPOSALS AT THAT STAGE. THE EC, IN PARTICULAR, PUSHED ITS PREFERENCE FOR A "PURE" HARMONIZATION FORMULA (Y X), AS WELL AS THE NEED FOR INCORPORATION OF A FLOOR/THRESHOLD IN THE HYPOTHESIS.

11. ANTICIPATING BEING ABLE TO COMPLETE EVALUATION OF PRIVATE SECTOR ADVICE ON TARIFFS BY JANUARY 1, 1976 WE INFORMED THE TG AT ITS OCTOBER MEETING THAT THE US DEL WOULD BE PREPARED WHEN THE GROUP NEXT MET TO PRESENT OUR IDEAS AND PREFERENCES ON THE MATTER OF A TARIFF CUTTING HYPOTHESIS. A FEBRUARY TG MEETING WAS RESCHEDULED FOR MARCH AT U.S. REQUEST WHEN IT BECAME APPARENT A FULL ROUND OF PRIVATE SECTOR COMMITTEE MEETINGS ON THE ISSUE OF TARIFF FORMULAS COULD NOT BE COMPLETED IN TIME FOR PRESENTATION OF A U.S. PROPOSAL IN FEBRUARY.

(1) TARIFF NEGOTIATING HYPOTHESIS

THE CONGRESS HAS AUTHORIZED THE PRESIDENT TO REDUCE U.S. DUTIES WHICH ARE GREATER THAN 5 AD VALOREM BY 60 0/0 AND TO ELIMINATE DUTIES 5 OR LESS IN SEEKING RECIPROCAL CONCESSIONS THAT WOULD ACHIEVE OPEN AND EQUITABLE ACCESS FOR U.S. PRODUCTS ABROAD. THIS

AUTHORITY ALLOWS THE PRESIDENT TO REDUCE U.S. DUTIES BY AN OVERALL PERCENTAGE REDUCTION CONSIDERABLY LARGER THAN WHAT WAS AUTHORIZED UNDER THE TRADE EXPANSION ACT OF 1962, AND IS A CLEAR INDICATION THAT THE LEGISLATIVE BRANCH CONSIDERS SUBSTANTIAL U.S. AND FOREIGN TARIFF

REDUCTIONS AS AN APPROPRIATE AND PRACTICABLE MEANS OF  
ACHIEVING THE PURPOSE OF THE TRADE ACT.

12. THE CONGRESS ALSO MANDATED, IN SECTION 103, THE  
FOLLOWING OVERALL NEGOTIATING OBJECTIVE: THE OVERALL  
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UNITED STATES NEGOTIATING OBJECTIVE UNDER SECTIONS 101  
AND 102 SHALL BE TO OBTAIN MORE OPEN AND EQUITABLE MARKET  
ACCESS AND THE HARMONIZATION, REDUCTION, OR ELIMINATION  
OF DEVICES WHICH DISTORT TRADE OR COMMERCE. TO THE  
MAXIMUM EXTENT FEASIBLE, THE HARMONIZATION, REDUCTION,  
OR ELIMINATION OF AGRICULTURAL TRADE BARRIERS AND DIS-  
TORTIONS SHALL BE UNDERTAKEN IN CONJUNCTION WITH THE  
HARMONIZATION, REDUCTION, OR ELIMINATION OF INDUSTRIAL  
TRADE BARRIERS AND DISTORTIONS.

13. IN ORDER TO OBTAIN A CONCRETE BASIS FOR CARRYING OUT  
THIS OVERALL OBJECTIVE, ADVICE HAS BEEN SOUGHT FROM THE  
VARIOUS PRIVATE SECTOR GROUPS FOR AGRICULTURE, INDUSTRY  
AND LABOR. SPECIFICALLY THESE GROUPS WERE ASKED TO  
IDENTIFY FOREIGN TARIFF ITEMS WHERE CONCESSIONS BY OUR  
TRADING PARTNERS WOULD HAVE THE GREATEST LIKELIHOOD OF  
BENEFITTING U.S. COMMERCE.

14. THESE RECOMMENDED CONCESSIONS WERE THEN SUMMARIZED  
IN TERMS OF THEIR DISTRIBUTION AS AMONG COUNTRIES AND  
SPECIFIC DUTY RANGES. THIS ANALYSIS, IN TURN, HAS  
PERMITTED IDENTIFICATION OF FOREIGN TARIFF ITEMS WHICH  
SHOULD BE TARGETED FOR REDUCTIONS IN THE MTN. THE  
RECOMMENDED CONCESSIONS FOR THESE ITEMS HAVE  
GENERALLY CALLED FOR SIGNIFICANT CUTS, WITH PARTICULAR  
EMPHASIS ON THOSE ITEMS WHERE FOREIGN DUTIES ARE HIGHER  
THAN U.S. RATES.

15. ANALYSES OF THE VARIOUS PRIVATE SECTOR ADVISORY  
INPUTS INDICATED THE FOLLOWING:

THE TARIFF-CUTTING HYPOTHESIS SHOULD GENERALLY  
PROVIDE FOR SIGNIFICANT CUTS IN TARIFFS, ACROSS-THE-  
BOARD, WITH HARMONIZATION. MORE SPECIFICALLY IT  
SHOULD:

(A) REDUCE TARIFFS ABOVE 10 0/0 BY THE GREATEST AMOUNT  
PRACTICABLE.

(B) REDUCE TARIFFS BETWEEN 5 AND 10 0/0 SUBSTAN-  
Tially.

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(C) REDUCE RATES BELOW 5 BY A SMALLER AMOUNT.

16. DRAWING UPON THESE CRITERIA, DERIVED DIRECTLY FROM THE ADVISORY INPUTS, THE USG HAS ALSO BEEN ABLE TO CONCLUDE THAT HARMONIZATION AS AN APPROACH TO REDUCING RATE DIFFERENCES WOULD ONLY BE EFFECTIVE IF ITS OBJECTIVE WAS REDUCING RATES IN THE RANGE IN WHICH THE LARGE MAJORITY OF DC RATES NOW FALL. ANY HYPOTHESIS THAT LIMITED REDUCTION OF RATES IN THE RANGE 5-20 IN ORDER TO PROVIDE FOR GREATER PERCENTAGE REDUCTIONS OF RATES ABOVE 20 WOULD NOT BE IN THE U.S. INTEREST.

17. STR IN CONJUNCTION WITH THE DEPARTMENTS OF COMMERCE, AGRICULTURE AND LABOR RESPECTIVELY, HAS RECENTLY CONDUCTED CONSULTATIONS WITH ALL COMMITTEES ESTABLISHED UNDER THE PRIVATE SECTOR ADVISORY PROGRAM. THE TENTATIVE INFERENCES DRAWN FROM THE PRIVATE SECTOR ADVICE WERE PRESENTED TO THE COMMITTEES FOR REVIEW AND COMMENT. A CLEAR MAJORITY OF OPINION EMERGED IN SUPPORT OF A SIGNIFICANT CUT IN TARIFFS, WITH HARMONIZATION. THE LABOR MOVEMENT IN GENERAL CONTINUES TO OPPOSE THE ADOPTION OF A TARIFF FORMULA BEFORE EXCEPTIONS ARE DETERMINED.

18. MOREOVER, A PRELIMINARY ANALYSIS OF THE ADVICE SUBMITTED TO THE PRESIDENT BY THE INTERNATIONAL TRADE COMMISSION ON THE PROBABLE ECONOMIC EFFECTS OF REDUCTIONS IN U.S. DUTIES DOES NOT SHOW THAT APPLICATION OF A TARIFF HYPOTHESIS BASED ON THESE CRITERIA WOULD, IN GENERAL, ADVERSELY AFFECT U.S. PRODUCERS. IT WOULD APPEAR THAT PROBLEMS OF IMPORT SENSITIVITY ARE MANAGEABLE ON A CASE BY CASE BASIS.

(2) INITIAL U.S. TARIFF FORMULA PROPOSAL

BEGIN BRACKETS IN TABLING ITS INITIAL FORMULA PROPOSAL, THE USG SHOULD CLEARLY ESTABLISH THE CRITERIA BY WHICH WE WILL JUDGE THE ACCEPTABILITY OF ANY PROPOSALS. END

BRACKETS. SPECIFICALLY, THE U.S. PROPOSAL SHOULD LEAVE NO QUESTION REGARDING OUR INTEREST IN A SUBSTANTIAL LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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OVERALL DEPTH-OF-CUT BEGIN BRACKETS AS WELL AS SIGNALLING OUR INTEREST IN ACHIEVING A SIGNIFICANT HARMONIZATION OF RATES ON ITEMS ACCOUNTING FOR THE BULK OF TRADE. END BRACKETS

19. WITH REGARD TO THE QUESTION OF THE OVERALL DEPTH-OF-CUT CALLED FOR BY THE FORMULA, THE EC, CANADA, AND JAPAN

HAVE SHARED THE VIEW THAT THE TARIFF REDUCTION HYPOTHESIS SHOULD BE LESS AMBITIOUS THAN THE 50 LINEAR HYPOTHESIS OF THE KENNEDY ROUND. THE EC AND JAPAN HAVE TABLED FORMULAS INCORPORATING A TARIFF HARMONIZATION APPROACH THAT WOULD NOT PROVIDE FOR SUBSTANTIAL REDUCTIONS OF RATES IN THE RANGE OF 5-20, BUT WOULD FOCUS UPON DEEP CUTS IN THE REMAINING DC RATES ABOVE 20. IN THIS WAY,

THEIR PROPOSALS EXCLUDE FROM MAJOR REDUCTION THE TARIFF HEADINGS UNDER WHICH MOST TRADE ENTERS THEIR RESPECTIVE MARKETS.

20. THE CANADIAN APPROACH HAS BEEN AT VARIANCE WITH THE EC AND JAPANESE PREOCCUPATION WITH HARMONIZATION BECAUSE OF THE CANADIAN EMPHASIS UPON CUTTING RATES BETWEEN 2.5-7.5--THE RATES AFFECTING THE BULK OF SEMI-PROCESSED MANUFACTURERS FOR WHICH CANADIAN PRODUCERS ARE SEEKING BETTER FOREIGN MARKET ACCESS. ACCORDINGLY, CANADA HAS EMBRACED THE CONCEPT OF DUTY ELIMINATION (OF RATES BELOW 5), AND TOTALLY REJECTS ANY FORMULA PROPOSAL THAT INCORPORATES A FLOOR/THRESHOLD.

21. THE U.S. INTEREST, IN CONTRAST WITH OUR MAJOR TRADING PARTNERS, IS IN OBTAINING A SIGNIFICANT OVERALL DEPTH-OF-CUT BEGIN BRACKETS WITH HARMONIZATION. MORE SPECIFICALLY, THE U.S. IS INTERESTED IN DEEPEST CUTS BETWEEN 10-20, SUBSTANTIAL CUTS BETWEEN 5 AND 10 AND LEAST CUTS IN RATES BELOW 5. END BRACKETS

22. THE BEST WAY OF OBTAINING SIGNIFICANT OVERALL DEPTH-OF CUT IS TO ADOPT A FORMULA WHICH CONTAINS A STRONG LINEAR ELEMENT. ACCORDINGLY, ANY FORMULA PROPOSED BY THE USG AT THE MARCH MEETING SHOULD INCLUDE SUCH AN ELEMENT.

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23. IN VIEW OF THE FACT THAT OUR TRADING PARTNERS ARE OPPOSED TO A SIGNIFICANT DEPTH-OF-CUT THIS SUGGESTS THAT TACTICALLY IT MIGHT BE ADVANTAGEOUS TO TABLE INITIALLY

THE FORMULA Y EQUALS 60 WHICH REPRESENTS OUR STATUTORY AUTHORITY ABOVE 5. THIS FORMULA WOULD HAVE MAXIMUM FLEXIBILITY AND NEGOTIABILITY AND WOULD PROVIDE US A NEGOTIATING CHIP. SINCE THE UNITED STATES HAS TRADITIONALLY BEEN OPPOSED TO THE CONCEPT OF HARMONIZATION, ACCEPTANCE OF THE CONCEPT COULD BE REPRESENTED TO THE EC AS A CONCESSION FOR WHICH THE EC SHOULD PROVIDE PAYMENT.

THERE IS A DIFFERENCE OF VIEWS, HOWEVER, ON HOW MUCH THE EC WOULD BE WILLING TO PAY IN LIGHT OF WHAT THEY KNOW ABOUT THE EVOLUTION OF U.S. THINKING ON HARMONIZATION.



24. IT ALSO HAS TO BE NOTED THAT THIS MEETING OF THE TARIFF GROUP WILL BE THE FIRST OPPORTUNITY FOR THE UNITED STATES TO BEGIN CONSTRUCTING A FRAMEWORK THAT WILL GUIDE THE NEGOTIATIONS TOWARDS AN OUTCOME REFLECTING U.S. INTERESTS. BEGIN BRACKETS BY DELAYING A DISCUSSION OF THE U.S. APPROACH TO HARMONIZATION, THERE WOULD BE A DANGER THAT THE EVOLUTION OF THE CONCEPT OF HARMONIZATION COULD GO IN THE WRONG DIRECTION. END BRACKETS. IN THIS CONNECTION, IT IS PARTICULARLY IMPORTANT TO NOTE THAT THESE ARE NOT JUST BILATERAL NEGOTIATIONS WITH THE EC, BUT INVOLVE OTHER COUNTRIES WHO WILL BE FORMULATING THEIR OWN ATTITUDES TOWARD ALTERNATIVE HARMONIZATION APPROACHES.

25. BEGIN BRACKETS THE U.S. INTEREST IN HARMONIZATION WHEN TAKEN TOGETHER WITH THE NEED FOR A STRONG LINEAR ELEMENT, SUGGESTS A FORMULA WHICH IS COMBINATION HARMONIZATION-LINEAR (AX PLUS B) IN FORM. SUCH A FORM WOULD MAXIMIZE U.S. FLEXIBILITY IN EMPHASIZING OR TRADING OFF HARMONIZATION AND LINEAR VALUES. THE QUESTION THEN BECOMES ONE OF DETERMINING THE APPROPRIATE VALUES FOR THE TWO ELEMENTS IN COMBINATION. END BRACKETS (FURTHER DISCUSSION OF COMBINATION LINEAR/HARMONIZATION FORMULA AND FLOOR ISSUE TO BE INSERTED. WILL SEND SEPARATE LIMITED OFFICIAL USE  
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CABLE WITH PROPOSED DRAFT LANGUAGE.

(C) RULES ON EXCEPTIONS

AT TG MEETINGS, OTHER DCS HAVE NOT SHOWN INTEREST IN ENGAGING IN SUBSTANTIVE DISCUSSION OF THIS QUESTION. COUNTRY POSITIONS HAVE, HOWEVER, BEEN STATED MORE CANDIDLY AT BILATERAL SESSIONS. THE POSITIONS TAKEN BY THE BIG 3 DURING THE PRELIMINARY DISCUSSIONS ARE AS FOLLOWS:

CANADA - RULES SHOULD BE ARTICULATED WHILE NEGOTIATION OF A FORMULA IS IN PROGRESS; QUANTITATIVE LIMIT ON EXCEPTIONS (TRADE AND LINE ITEM COVERAGE) IS DESIRED. EC - RULES SHOULD BE DEVELOPED AFTER A FORMULA HAS BEEN CHOSEN. IN ORDER TO AVOID LENGTHY KR APPROACH, WOULD GIVE COUNTRIES "FLEXIBILITY" TO SELECT, UP TO A PRESET LIMIT, EXCEPTIONS THAT WOULD NOT HAVE TO BE JUSTIFIED.

JAPAN - FEARS PREMATURE DISCUSSION OF EXCEPTIONS; HAS STATED THAT DOMESTIC PRESSURE ON DIET RE EXCEPTIONS COULD LIMIT JAPANESE NEGOTIATING FLEXIBILITY ON THE FORMULA ITSELF; INTEND TO TABLE LONG EXCEPTIONS LIST WHICH OTHERS SHOULD PARE DOWN THROUGH C & J.

26. THE LDCS' PRIMARY CONCERN IS TO MAKE EXCEPTIONS PROCEDURES "TRANSPARENT", I.E. ALL PARTICIPANTS BEING GIVEN ACCESS TO EXCEPTIONS LISTS (REGARDLESS OF SUPPLIER STATUS) AND HAVING THE OPPORTUNITY TO CONFRONT THE FORMULA COUNTRIES ON ANY OR ALL ITEMS ON THEIR LISTS.

27. THE US WILL NOT BE PREPARED TO DISCUSS RULES ON EXCEPTIONS UNTIL AGREEMENT ON A TARIFF FORMULA IS REACHED AND WE HAVE CONSULTED ON THIS QUESTION WITH THE PRIVATE SECTOR ADVISORY COMMITTEE. HOWEVER, THE USG CAN AND SHOULD BE ON RECORD AS SUPPORTING THE PRINCIPLE OF A BARE MINIMUM OF EXCEPTIONS, WITH SPECIAL EFFORTS MADE TO LIMIT EXCEPTION OF ITEMS OF EXPORT INTEREST TO LDCS.

(D) SPECIAL AND DIFFERENTIAL TREATMENT TO LDCS

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SEVERAL LDC PROPOSALS HAVE BEEN MADE AT TG MEETINGS RE INCORPORATION IN THE TARIFF FORMULA OF AN LDC "TERM" THAT WOULD SET A TARGET FOR DIFFERENTIAL TREATMENT OF LDC EXPORT INTERESTS. THIS "TERM" HAS, IN SOME PROPOSALS, BEEN DEFINED AS A MEANS OF PRESERVING GSP MARGINS (LESS-THAN-FORMULA MFN CUTS); IN OTHERS, IT IS DEFINED AS INCREASING THE DEPTH-OF-CUT OTHERWISE CALLED FOR BY THE FORMULA WHEN LDCS HAVE AN EXPORT INTEREST IN A SPECIFIC DC LINE ITEM.

28. LDCS HAVE SOUGHT LESS VIGOROUSLY A DC COMMITMENT FOR

DIFFERENTIATED STAGING AT THE LINE ITEM LEVEL  
(ACCELERATED STAGING OF CUTS ON NON-GSP ITEMS, SLOWER STAGING WHERE GSP EXISTS).

29. A U.S. PROPOSAL FOR BILATERAL CROSS-NOTIFICATION BETWEEN DCS AND LDCS OF TERMS OF PARTICULAR EXPORT INTEREST WAS MADE IN OCTOBER, AND WILL APPEAR ON THE MARCH AGENDA.

30. THE FORMAL TABLING OF TARIFF-CUTTING PROPOSALS BY THE DCS WILL LIKELY PROMPT VOCAL NEGATIVE REACTION FROM LDCS WHO STILL CONSIDER AN ACROSS-THE-BOARD HYPOTHESIS DETRIMENTAL TO THEIR INTERESTS. WHILE THE USDEL, IN PRESENTING THE U.S. FORMULA PROPOSAL, WILL BE STRESSING

ITS POTENTIAL POSITIVE EFFECT IN SOLVING LDC TARIFF PROBLEMS, A MUCH MORE FORTHCOMING POSTURE CAN BE TAKEN THROUGH CONTINUED ADVOCACY OF THE CROSS-NOTIFICATION PROCEDURE. UNDER THIS PROCEDURE LDCS WILL BE ABLE TO BRING TO THE ATTENTION OF THE DEVELOPED COUNTRIES THEIR

OWN PARTICULAR INTERESTS IN A TARIFF FORMULA, INCLUDING TARIFF ESCALATION PROBLEMS. THE PROPOSAL DEMONSTRATES OUR WILLINGNESS TO CONSIDER CONCRETE MEANS OF GIVING LDC EXPORTS DIFFERENTIAL TREATMENT UNDER THE TARIFF PLAN, BUT NOT BEFORE THE SCOPE OF LDC EXPORT ITEMS TO WHICH THE DIFFERENTIAL TREATMENT MIGHT APPLY IS KNOWN.

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A U.S. STATEMENT AT THE OCTOBER MEETING ALLUDED TO NEED FOR AN "ADJUSTMENT FACTOR" TO BE BUILT INTO THE TARIFF-CUTTING FORMULA WHICH WOULD COMPENSATE FOR THE LESSER PROTECTIVE EFFECT OFFERED BY AD VALOREM DUTIES CALCULATED ON AN FOB BASIS. IN SUBSEQUENT BILATERAL CONVERSATIONS, BOTH CANADA (SUPPORTING) AND THE EC (OPPOSING) REVEALED THAT THEY TOOK THE U.S. STATEMENT QUITE SERIOUSLY.

31. WHILE FROM A PRACTICAL STANDPOINT IT MAY BE IMPOSSIBLE TO DEVISE AN ACCEPTABLE "FACTOR" WHICH CAN BE APPLIED ACROSS-THE-BOARD, THE USG WILL STILL EXPECT TO HAVE OTHERS MEASURE THE VALUE OF OUR CONCESSIONS ON A (CONVERTED) CIF TRADE-WEIGHTED BASIS. UNLESS OTHER PARTICIPANTS CHOOSE AT THIS MEETING TO OPENLY OPPOSE THE CONCEPT OF "ADJUSTMENT", THE USDEL NEED ONLY STATE THAT WE WISH TO CONTINUE TO EXPLORE BILATERALLY TECHNICAL ASPECTS OF THE PROBLEM, DRAWING ON SOON TO BE PUBLISHED DATA SHOWING DIFFERENCES IN FOB VS. CIF DUTIABLE VALUES OF U.S. IMPORTS FOR CALENDAR YEAR 1975 (AT THE TSUS ITEM LEVEL).

(E) BASE RATES/BASE DATES

A DECISION IS STILL REQUIRED ON THE STATUS FOR NEGOTIATING PURPOSES OF STATUTORY VS. APPLIED ("TEMPORARY") RATES ON UNBOUND TARIFF HEADINGS; AND ON THE BASE DATE FOR UNBOUND ITEMS.

32. DISCUSSION OF THIS ISSUE HAS BEEN TAKING PLACE ALMOST ENTIRELY BILATERALLY (E.G. AT THE OCTOBER TG MEETING, THE ONLY NOTABLE INTERVENTION UNDER THIS AGENDA ITEM WAS AN EC REQUEST THAT THE SECRETARIAT PREPARE A SYNOPSIS TABLE OF COUNTRY PROCEDURES FOR SETTING AND CHANGING DUTIES).

33. THE U.S. SHOULD NOT PUSH FOR RESOLUTION OF THIS ISSUE (MULTILATERALLY) AT THIS TIME. AS THE LIST OF COUNTRIES WHO HAVE SUBMITTED THEIR TARIFF RATE INFORMATION (TRIF) GROWS, OUR BILATERALS CAN BECOME MORE DETAILED, AND WILL

YIELD MORE ACCURATE MEASUREMENTS OF RATE REDUCTIONS  
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FOREGONE UNDER VARIOUS OPTIONS FOR TREATMENT OF UNBOUND RATES. THE US DEL SHOULD SEEK TO RETAIN, AS LONG AS APPROPRIATE, THE NEGOTIATING LEVERAGE THIS ISSUE OFFERS VIS A VIS JAPAN AND OTHER COUNTRIES WHICH HAVE "UNILATERALLY" REDUCED MANY OF THE UNBOUND RATES IN THEIR SCHEDULES.

(F) GATT SECRETARIAT ANALYSIS OF FORMULAS/TECHNICAL WORKING GROUP

SINCE THE MAY 1975 MEETING, AT WHICH SEVERAL NEW FORMULAS WERE TABLED "WITHOUT COMMITMENT", THERE HAS BEEN VIRTUALLY NO DISCUSSION OF HAVING THE SECRETARIAT PREPARE TABULATIONS DESCRIPTIVE OF REDUCTIONS CALLED FOR BY VARIOUS FORMULAS. THERE IS STILL PENDING, HOWEVER, DEVELOPMENT OF A SYSTEM FOR "RAPID EVALUATION OF THE EFFECTS OF PROPOSED TARIFF-REDUCTION FORMULAS ON LDC EXPORTS", THE CREATION OF THE SYSTEM HAVING BEEN AGREED TO IN PRINCIPLE AT THE JULY TG MEETING, BUT WITH THE U.S. RESERVING ITS POSITION.

34. IT IS UNLIKELY THAT A FINAL DECISION ON THE TARIFF FORMULA WILL BE MADE IN THE ABSENCE OF ANY SECRETARIAT PREPARED TABULATIONS ON THE FORMULA'S EFFECTS. HOWEVER, IF SUCH TABULATIONS WERE PRODUCED AT THIS STAGE THE RESULTS SHOWN MIGHT REDUCE THE FLEXIBILITY OF THE MAJOR PARTICIPANTS IN MOVING TOWARD A COMPROMISE FORMULA. ALL DEVELOPED COUNTRIES (EXCEPT THE USG) HAVE APPROVED, HOWEVER, IMPLEMENTATION OF A "SYSTEM" FOR RAPID EVALUATION OF THE EFFECTS OF TARIFF FORMULAS ON LDC EXPORTS. SINCE TABULATIONS GENERATED UNDER THIS "SYSTEM" COULD BE DESIGNED TO FAVOR ONE OR ANOTHER OF THE TARIFF FORMULA APPROACHES FAVORED BY OUR DC TRADING PARTNERS, IT IS IMPORTANT FOR THE U.S. TO HAVE A VOICE IN THE DESIGN OF THE "SYSTEM" AND THE PRESENTATION OF THE STATISTICAL DATA GENERATED. TO FACILITATE THE USG INFLUENCING THE "SYSTEM", IT MAY BE APPROPRIATE TO PROPOSE FORMATION OF A TECHNICAL WORKING GROUP TO "EXAMINE" THE NEEDS OF THE PARTICIPANTS FOR STATISTICAL DATA THAT WOULD AID IN SELECTION OF AN APPROPRIATE TARIFF REDUCTION FORMULA." A JUDGEMENT ON THIS QUESTION CAN  
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MOST APPROPRIATELY BE MADE BY THE US DEL IN LIGHT OF

THE DISCUSSIONS BEFORE AND DURING THE TG MEETING. KISSINGER

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